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February 12, 1997

BY HAND DELIVERY

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, NW- Room 222
Washington, DC 20554

Re: Ex Parte Statement
Access Charge Reform
CC Docket No. 96-262

Dear Mr. Caton:

On February 11, 1997, representatives of WorldCom, Inc. met with Chairman Reed Hundt and his legal advisor, Tom Boasberg, to discuss WorldCom's position in the above-referenced proceeding. Present on behalf of WorldCom were Catherine Sloan, Vice President of Federal Affairs, Andrew Lipman of Swidler & Berlin, and the undersigned. I have enclosed a copy of a summary of WorldCom's position that was provided at the meeting.

Sincerely,

PK Rohrbach

Peter A. Rohrbach

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WORLDCOM, INC.

A Plan for Pragmatic Access Reform

CC Docket No. 96-262
February 1997

WORLDCOM ACCESS POSITION

1. **WorldCom has a balanced, practical proposal for how to move ahead on access reform – using market-based solutions where possible.**

   [A summary of our access reform proposal is provided as Attachment A; our proposed schedule for staging access reform orders is provided as Attachment B]

   - Our plan corrects the most egregious ways that the access rate structure does not reflect cost.
   - Our plan involves only limited rate prescription now, focusing on elements that are the least susceptible to competition.
   - Our plan would not result in precipitous changes in ILEC access revenue, but it does not grant the ILECs revenue guarantees either.

2. **The WorldCom plan depends upon full implementation of local competition.**

   - Unless we can routinely replace the ILEC as the local service provider, we must pay access charges in virtually all cases. "Originating switched access" per se is not a competitive service.
   - New access rules should support the development of local competition, while recognizing that this process will take time.

3. **Meanwhile, the ILECs seek premature pricing flexibility.**

   - We generally do not oppose opportunities for ILECs to reduce access rates towards cost for all access customers.
   - We do oppose premature flexibility that would allow the ILECs to reduce charges for only selected access customers (but no one else), and to cross-subsidize services facing initial competition.

4. **The Commission should hold in reserve the "stick" of broader prescription of access rate reductions if local competition does not develop soon.**

ATTACHMENT A

WORLDCOM ACCESS REFORM PLAN

(Summary of comments filed January 29, 1997)

SUMMARY

A. WorldCom's Perspective on Access Reform

- **Access reform should promote consumers' closely inter-related interests in lower long distance rates and future local competition.**

  – Access is fundamentally different from end user services: access is primarily a production input that carriers use to create end user services.

  – Today, monopoly ILEC access charges artificially inflate long distance rates for all consumers.

  – For structural reasons, "access competition" per se is not possible in ways that would reduce the access costs of stand-alone IXCs. Rather, ILECs will face pressure on their access rates only with the development of local competition, and the ability of competing carriers to supply access to local customers they have won from the ILECs.

- **Access reform should make use of competitive pressure on access rates where possible, recognizing that some access rate elements are much less subject to such pressures.**

  – Charges to end users: Incumbent LECs and new entrants will compete directly for end user business, so charges to end users are likely to become competitive -- if local competition develops.

  – Charges to carriers:

  Special access and dedicated transport -- should become competitive if the 1996 Act is implemented successfully.

  Originating switched access charges -- will remain a bottleneck for stand-alone IXCs, and will not become competitive per se. But will become avoidable to the extent IXCs can self-supply originating access through vertical integration, as full-service local and long distance carriers, or through special access.

  Terminating switched access charges -- are not likely to be subject to competition in the foreseeable future, because the party placing the call -- or that party's IXC -- has little or no ability to influence the called party's choice of local carrier.

  Bulk billed-type charges -- charges imposed whether or not a carrier uses ILEC access by definition could never become competitive.

B. Governing Principles for Market-Driven Access Reform

1. Local competition is the best way to discipline incumbent LECs' access rates and achieve long-term access reform.

- In the short run, the Commission must make rate structure reforms that facilitate local competition, and prescriptive rate level changes targeted to rates that will not be subject to competitive pressure. Comprehensive rate level prescriptions can be avoided initially.

- In the somewhat longer term, the Commission should use both "carrots" and "sticks" to induce the incumbent LECs to provide interconnection and unbundled network elements at reasonable rates, terms, and conditions.

  > The "carrot": incumbent LECs that have fully satisfied the competitive checklist should be allowed certain forms of pricing flexibility.

  > The "stick": if an incumbent LEC has not fully satisfied the checklist by a date certain, the Commission should proceed with aggressively prescriptive access rate reductions.

2. No incumbent LEC revenue stream should be guaranteed or shielded from competition.

- A guaranteed revenue stream would be inconsistent with market-based access reform; it would eliminate competitive discipline for such revenues, and thus perpetuate above cost access charges.

- It would also create a formidable barrier to entry, giving incumbent LECs a revenue stream not available to their competitors that they could use to cross-subsidize competitive services.

- Under the 1996 Act, the incumbent LECs have no legal right or policy basis for guaranteed recovery of past investments.

3. The Commission must be vigilant to prevent discrimination and other anti-competitive conduct by the incumbent LECs during the transition to competition.

- During the transition period, the Commission must not allow forms of pricing flexibility that would enable incumbent LECs to discriminate in favor of their affiliates or other favored customers, thus forestalling local competition without bringing overall access rates closer to cost.

- Such discriminatory forms of pricing flexibility include contract tariffs, competitive response tariffs, additional authority for volume discounts or discounts for terms longer than 3 years, or deregulation of "new" services.

C. Recommended Baseline Access Rate Structure and Rate Level Changes to Set the Stage for Local Competition.

- **Rate Structure**:
  Recover the costs of dedicated facilities through non-traffic sensitive, flat rates:
  - Subscriber loops:
    > Eliminate the per-minute carrier common line charge.

    > Eliminate the cap on the subscriber line charges for all lines, or at least for business and additional residential lines.

    > Recover any remaining loop costs as flat rate from IXCs; forbear on Section 254(g) to permit IXCs to recover on a geographically deaveraged basis.
  - Line-side port component of local switching: Flat rate charge either on end users or on IXCs (with forbearance on Section 254(g)).

- **Rate Level**:

  Initial prescriptive rate level changes should be focused on elements least subject to competitive pressure. We recommend that the Commission initially set rates based on forward-looking economic costs only for the following:
  - Terminating Local Switching -- because terminating switched access rates are least likely to become subject to competitive pressure.
  - Tandem Switching -- in response to the CompTel v. FCC remand.
  - Line-Side Port Component of Local Switching -- to initialize a new rate element and adjust the per-minute charge accordingly.

- **Transport Interconnection Charge**:
  - Eliminate the TIC immediately, or as soon as possible.
  - Take first from the TIC all access rate reductions due to universal service, price caps, and end of equal access reconfiguration amortization; remove SS7 costs, retail marketing costs, and costs of non-regulated facilities from the TIC.
  - Modify the rate structure of any residual TIC to be a flat rate charge per presubscribed line.

D. Manage the Transition to Competition By Offering Incentives to ILECs

- Phase I -- "Potential Competition": Incumbent LECs that are providing unbundled network elements under pro-competitive terms and conditions and at forward-looking cost based rates, and that fully comply with other prerequisites to local competition, should be permitted certain forms of pricing flexibility:
  - At Phase I, permit: geographic deaveraging of all access services; term discounts of no more than 3 years; streamlined regulation of truly new services (that cannot be substituted for existing access services).
  - Do not permit: contract tariffs; competitive response tariffs; additional authority for volume discounts or discounts for terms longer than 3 years; or deregulation of services that can be substituted for existing services.
  - Competitively neutral universal service mechanisms should be fully implemented and the TIC should be eliminated before Phase I measures are allowed.
- Phase II -- "Substantial Full-Service Competition": Incumbent LECs that can show an economically substantial degree of full-service competition, measured using the Herfindahl-Hirshman Index, should be allowed additional pricing flexibility.
  - But the Commission should not deregulate the rate structure rules for dominant ILECs (especially for terminating access).
  - The Commission could consider subdividing Phase II into two intermediate phases ("emerging full service competition" and "substantial full service competition"). Such distinctions could permit a more tailored approach to further ILEC rate regulation.
- If an incumbent LEC has not fully complied with the checklist of local competition prerequisites by Jan. 1, 1999, the Commission should prescribe all of its access rates based on forward-looking economic cost.

E. Retain the Rule that Information Service Providers Need Not Pay Interstate Carrier Access Charges.

ATTACHMENT B

STAGING ACCESS REFORM ORDERS

(A proposed schedule for access reform)

A PRACTICAL PLAN FOR ACCESS REFORM

Stage One: First Order in April 1997; ILECs Implement July 1997

- **Correct most egregious ways that the access rate structure does not reflect cost.**

- **Make access subject to competitive pressure, while prescribing rate reductions for elements least susceptible to competition.**

A. Subscriber loop and local switching rate structure changes.

1. Eliminate per minute CCL, and recover all subscriber loop costs through either increased SLC or flat rate charge to carriers with Section 254(g) forbearance.

2. Establish flat rate charge for line-side switch port; set rate based on TELRIC times interstate allocation.

3. Set rate for terminating local switching at TELRIC; remaining local switching revenues recovered through originating local switching (residual, if any, recovered on per originating line basis).

Result: Moves rate structure closer to cost. Recognizes that terminating service cannot be competitive.

B. Begin elimination of the TIC.

1. Adopt easiest rate level fixes (e.g., universal service rate reductions, to be implemented in same time frame, come first out of the TIC).

2. Change rate structure to flat rate per presubscribed line.

3. Important: ILECs may not impose TIC when they are not the end user's local carrier.

Result: Imposes competitive pressure on the TIC now, while deferring further action to prescribe TIC reductions.

C. Re-initialize tandem switching rates at TELRIC.

Result: Responds to D.C. Circuit order. Reduces discrimination in transport options between common and dedicated.

D. No changes to common transport rate structure options.

Result: Leaves in place status quo that is working; avoids need for prescription of transport at TELRIC now.

- **Define Phase I ("Potential Competition") Pricing Flexibility and Specify Initial Triggering Requirements for that Phase.**

Problem: The ILECs are seeking far too much flexibility given the continuing dependence of IXCs on ILEC access at Phase I, as well as the rising incentives for ILEC discrimination and cross-subsidization.

This work could be put off to the second access reform order if time runs short because ILECs are not near reaching the proposed triggers.

Pro-Competitive Results Of Access Reform Order #1

- Substantial improvement in access cost structure.
- Harmonizes with changes required this spring for universal service reform.
- Access customers begin to have an opportunity to reduce their access costs over time as they become local service providers themselves.
- No precipitous change in ILEC access revenue, but no revenue guarantees either. Sets stage for ILECs to face competitive pressure in the future.

SUBSEQUENT STAGES OF ACCESS REFORM

Second Order: Adopted Fall 1997; ILECs Implement January 1998

1. Conclude 4th NPRM in Price Caps to lower overall rate levels based on pro-efficiency incentives created by price cap system.

2. Complete any remaining changes to the TIC; establish a transition to eliminate the TIC altogether.

3. Act on any remaining rate structure issues.

4. Resolve reconsideration of issues from first order based on developing experience with interconnection and local competition.

Third Order: Adopted Early 1998; Implementation Based on ILEC Performance and Competitive Conditions

1. Establish principles for reduction in ILEC access price regulation based on the presence of actual local competition in the market.

Note: These decisions must recognize that ILEC incentives to discriminate and cross-subsidize will remain strong for some time. The most dangerous and difficult problem will be the ILECs' push for premature use of contract pricing to block competitors while avoiding the need for general access rate reductions.

2. Hold out the "stick" of further prescriptions if local competition fails to develop quickly. In that case lower access charges, and therefore lower long distance rates, will come only through FCC mandates.

3. Address ISP/ESP access issues based on NOI record and further experience. Resolution should be somewhat simpler if local competition is succeeding in bringing rates toward cost.